The MORTGAGE BANKER

VOL. III—No. 7 MORTGAGE BANKERS ASSOCIATION OF AMERICA MBA ORGANIZED 1914 APRIL 1, 1941

How the Defense Housing Program Works

An official statement on how the government views the problem and what it will do to insure success

By JUSTIN HARTZOG

EVERYONE who remembers the defense program of 1917 and 1918 will recall that one of the worst bottlenecks was housing. The workers who came to take jobs in munitions plants, shipyards, and many other expanding industries often found there were no decent places in which to live, much less to bring their families. Transportation in those days was bad; and after a few trials at going home Sundays, many of the workers left their jobs and sought other employment. The unhappy result was that some plants were bogged down until the end of the war.

We do not propose to have any such situation interfering with the efficiency of defense this time. Americans are the most efficient people in the world, provided they are supplied with good working conditions and decent places for their families to live.

In case the emergency lasts a long time, we can all do something toward correcting other situations that are harmful to national health and morals, but that are less urgent in relation to military needs. In the long run there is still room for great improvement in the whole field of American housing. Every improvement that helps to reduce disease and discontent helps to strengthen the morale of the United States.

If, at times, you've been confused as to just what the defense housing program actually embraces, what stage of development it has now reached and its future scope—you haven't been alone. There has been so much written and said about it that it hasn't been easy to have a broad picture of it at any one time. In this article Mr. Hartzog gives you a clear analysis of just what is being done, the thinking behind the plans and how the government views this problem. He is with the Office for Emergency Management, Division of Defense Housing Coordination, and is a well-known authority on housing problems.

How does the defense housing program work?

Obviously, the first step is to anticipate and determine housing needs. Such requirements arise in areas where defense operations are likely to or have already created shortages. These shortages are revealed to the Coordinator by preliminary information coming from the Army, the Navy, or the Defense Commission, in the form of advance notice of expansion or the letting of contracts.

Such facts are forwarded to the Regional Defense Housing Coordinator. Along with it he receives all other material about the locality that can be obtained from various government agencies. This may include census figures, vacancy surveys by the WPA, market analysis by FHA, labor statistics by the Department of Labor, and such other pertinent material as may be obtained from the numerous sources provided by our government.

The Regional Coordinator then visits the locality to get first-hand, on-the-spot knowledge. He uses the facilities of the local defense council, the housing authority, the real estate board, and the local representatives of the federal services, especially the Army and the Navy. He verifies not only the local housing situation but also in a general way the services people must have outside their houses—the water and sewer systems, streets, fire protection, schools, shopping district, transportation and the many other factors that enter into community life. Any one of these might turn out to be a bottleneck.

From this preliminary study the locality report is made. It shows the number of new families or single men that are expected to come in as a direct result of defense work. It also points up the indirect increase that is likely to be caused by booming business in the neighborhood. It gives an estimate of the number of vacant houses or rooms suitable for accommodating these new arrivals as well as the commuting possibilities in these days of fine roads.

Where houses have to be built, the report covers first the number private enterprise is expected to supply. The remaining houses that are required, those that must rent for less than $25 per month, or that will have only temporary usefulness, or that are to be on government property, are assigned to various federal agencies for construction.

Whatever agency handles the projects, the work of construction is done by private contractors who are usually chosen on a basis of their nearness to the job and their probable ability to get the work done quickly.

Every effort is being made not only to supply houses on time but to supply good houses. Even for temporary use, the Division of Defense Housing Coordination is insisting on dwellings that will be comfortable. All available ideas are being explored, and right now we are launching a temporary shelter program that will include such short term accommodations as trailers and boats.

There are so many areas in which dwelling units will have to be constructed if we expect our defense machine to run on well-oiled cylinders that wherever possible we are exploring ways of fulfilling the housing needs without actually building. In this connection we have set up a Homes Registration Bureau which lists all the vacant apartments and rooms for the information of workers coming into a defense locality. In the last World War approximately 100,000 people were accommodated through vacancy surveys. In other cases often we find that the cheapest and quickest way to take care of workers is by improving transportation so that they can commute reasonable distances rather than having to move their homes. The size of the locality surrounding any factory or shipyard or other activity is much larger today than it was in World War No. 1 because of these improved facilities. The extent of a locality now is the practical commuting distance. With our system of hard roads and cheap cars we can draw workers from greater distances with less inconvenience than they would suffer from moving. From the government standpoint, there is every advantage in avoiding the abnormal relocation of workers as far as possible because there will be that much less dislocation to contend with when the defense program ends.

It'll Be Built Regardless

But, where housing is necessary, we are going ahead and creating it. Thus far, we have made allocations of public funds for more than 70,000 dwelling units. Contracts have been awarded for the construction of almost 40,000 of these, and 2,500 are now occupied. Of the allocations we have made, more than 47,000 of the dwelling units will house civilian workers with more than 23,000 for the families of enlisted personnel.

Thus far, through legislation initiated or actively supported before Congress by the Coordinator, approximately $290,000,000 in federal funds has been made available for the construction of these defense housing units. Broken down, the funds were distributed as follows: $10,000,000 to the Defense Homes Corporation, an RFC affiliate, which was to be used as equity capital for the construction of large scale rental housing projects financed with FHA insured mortgages. Inasmuch as the FHA will insure 80 per cent of the appraised value of the property this made available approximately $50,000,000 for defense housing developments. It is the intention to use this method of financing in what we might term "twilight" areas. In other words where the nature of the need gives indication that the project will liquidate itself from the rental returns, but where the undertaking is too hazardous to attract private enterprise.

The Coordinator actively supported before Congress the $100,000,000 amendment to the Army and Navy appropriation bill Public Act 781. The funds provided for in this amendment are being used to provide shelter for the families of enlisted personnel and for civilian workers in government plants.

Next, the Coordinator initiated what is popularly known as the Lanham Act, Public Act 849, which provided $150,000,000 for housing for civilian industrial workers, and in a few cases for families of the enlisted personnel.

Substantially all of this money has now been allocated and many of the dwelling units are now under way.

We are, in addition to the amendment to the National Housing Act, asking that Congress appropriate $150,000,000 additional for the construction of housing which private enterprise cannot supply. We hope this will be sufficient for our present needs. The other item the Coordinator has asked for, and received, is $5,000,000 which will be used for purely temporary shelter in particularly critical areas, and will serve until more permanent units can be erected.

That briefly and in a general way is how the defense housing program works. Bankers, banks and other lending institutions, in supplying the credit facilities for the majority of the small home construction being carried on today, have an important place in the plans for housing families of defense workers.

Many make FHA loans. Construction of these FHA-insured single family dwellings during recent years has gone far toward alleviating normal housing shortages. In order that they may reach a greater proportion of the workers in defense industries, the Coordinator has initiated legislation now before Congress designed to facilitate the participation by private industry in the program.

I refer to the proposed Title 6 of the National Housing Act H. R. 3162. This measure sets up a separate defense housing insurance fund of $10,000,000 to be used to underwrite $100,000,000 in mortgages on one to four family dwelling units in defense areas. Under this amendment, with certain limitations and restrictions, loans to builders would be insured up to 90 per cent of the FHA Administrator's appraised value of the property. Through this device the builder of a large quantity of houses in a defense area would be able to receive fully guaranteed loans up to 90 per cent of the appraised value of the entire project. He could then sell to individual buyers who could amortize their down payment over a period of months, or, if needed the builder could rent such dwelling units.

To conservative lending institutions this provision may appear to be extremely liberal and inconsistent with what have

(Continued on page 8, column 1)

Selling Mortgage Loans With an Initial Premium Which Includes Servicing

One author here says it's not the way to do business while another feels about the same

How would you like to receive an initial premium of 8 or 9 per cent on your FHA loans? That's about what you probably would have to get if you sold them on a flat basis with no provision for future servicing, says one of the mortgage men whose views make up this symposium.

It's devoted primarily to the question of selling loans on a flat initial basis which includes the servicing for all or part of the mortgage term. The second part of the discussion concerns setting aside a portion of the premium as a reserve to cover future servicing costs—and on what basis, the authors ask themselves, could such a reserve be computed and handled?

Leslie N. Jull of Detroit writes that he doesn't believe many mortgage men *are* selling loans on a flat basis— "especially in view of the experiences of the depression. But it may be true that lessons learned are soon forgotten." He says:

"Any originating mortgagee who would offer a loan for sale on such a basis should be properly viewed with suspicion by the loan purchaser for it implies that future years of service which are to be performed are being paid for in total now. What guarantee does the purchaser have that the services will be rendered, or that they will be rendered in accordance with the original understanding? Remember that intentions may be of the best, but who is there today who can say with assurance what one year, five or ten will bring. The best we can do is *guess,* keep our feet on the ground, plan and try to work out our problems.

"In the second place, how could such a reserve be created under present income tax laws, when it is quite possible the internal revenue department would rule that the income is taxable in the year received and would not permit the reserving of part or all of the item for future amortization.

"Third, what rule could one follow to set up such a reserve, if it were possible to do so. By what rule could you estimate the loan life, for remember that not many loans run their full amortization period.

In this piece two mortgage men review a practice which was common not so very long ago. Some mortgage firms sell their loans at a flat initial premium which includes the service charge for all or part of the mortgage term. Is it good business? Mr. Jull says no and Mr. Thomas frowns on the practice too. Mr. Jull is vice president of Melvin F. Lanphar and Company of Detroit and Mr. Thomas is president of Thomas & Grosbon of Philadelphia.

"The question of creating reserves against the years of diminishing returns on FHA's has been a subject of continued discussion, yet what is a sound formula? My company is operating on a basis which will permit a reasonable accumulation to surplus each year, after we pay our silent partner, the United States Government. In this way we are providing a cushion against the years to come when we may find that our normal operations and the per loan servicing income then being received may not be sufficient for us to operate at a profit on the loans which are still being serviced that were made during the years when they were sold a premium.

"If any mortgage company intends to stay in business, then the question of diminishing returns from servicing by virtue of the amortization feature will probably never present a serious problem, as the mortgage company will no doubt still continue to make new loans. This only develops a problem of what is the average size loan being serviced, and the ratio of income and expense per loan to the average loan in servicing.

"We believe that any company who buys loans, FHA or conventional, and pays a premium and expects that premium to compensate for servicing which is to be done without annual income to the servicer, is absolutely wrong. He is courting trouble. We feel the same about any originating mortgagee who would do it, unless he intends to go out of business when his income from premiums on new sales stops. It would certainly be short-sighted for any investing institution or any originating mortgagee to buy or sell loans at a premium with no annual servicing participation."

The view of John A. Thomas of Philadelphia is similar. He writes:

"I believe that this practice could be followed profitably only on those types of mortgage loans which we designate as conventional loans, to distinguish them from FHA loans.

"As all mortgage brokers are now aware, the cost of servicing a FHA loan is greatly in excess of that required to service a conventional loan, because of the monthly payment feature, the escrow accounts, the adjustment of payments required, and other voluminous detail involved.

"I have chosen as a typical example, an FHA insured mortgage for $4,800 for a period of 25 years, at an interest rate of 4½ per cent. The total amount of interest paid by the mortgagor for the entire 25 years amounts to $3,201.35. The servicing fee at one-half of 1 per cent, therefore, amounts to $355.71, which is equal to 7.41 per cent of the face amount of the mortgage.

"Since there is still a great deal of doubt in my mind, and in the minds of other mortgage brokers, that this service fee which I have outlined will prove

(Continued on page 6, column 1)

To Operate Properly You Must Have a Profit When the Loan Is Acquired

Two mortgage men look at this question and one other having to do with the servicing cost

How are you going to run a first-rate mortgage firm unless you get some initial profit at the time you acquire loans?

Granville M. Semmes of Gary, Indiana, indicates that you're probably not going to and, as his contribution to the subject, says:

"It's an easy question to answer—can mortgage firms operate properly without receiving at least a small profit at the time loans are acquired? The answer is 'no'. (Was there ever a mortgage man who wasn't underpaid?)

"We must differentiate between the cost of acquiring conventional loans and FHA's because the cost of producing the latter is unquestionably greater. In either event I say definitely that a proper operation is dependent upon an acquisition charge to the borrower.

"In the first place, the cost of acquisition is *high* in proportion to other phases of the mortgage loan operation. In other departments we have found numerous ways to short-cut and streamline, but not so on production. It's still a case of working like the devil and 'sticking your neck out.' One reason for this work is the multiplied forms and red-tape that are a part of doing business today. We now have a separate application department for handling this work whereas formerly a salesman could handle the complete task, including preparation of the submission to the outlet.

"Another factor increasing cost is more competition. The FHA is partly responsible for this because they have made it possible for certain types of lenders with no previous mortgage loan experience to enter our field in a large way. The result: we are obliged to carry more solicitors and incur more expense for advertising and promotional work to the end that we at all times have a considerable investment in future business. Under changing conditions and in view of the uncertainty of the future, we may never cash in on this investment. Surely this investment, together with the additional effort put forth and the risk involved, are entitled to some profit.

Should the cost of obtaining new business be properly segregated from the cost of servicing? That is the second question raised in this article and R. A. Benge, vice president of the Detroit Bank, sets forth his views on it. Granville M. Semmes, president of the Calumet Securities Corporation of Gary, Indiana takes the view that a mortgage company cannot operate properly unless a profit is received at the time loans are acquired.

"As a matter of safety, it seems to me each phase of the business should be self-supporting. I don't know how a sound plan of operation can be based on any other premise. To do otherwise is merely robbing Peter to pay Paul and can only result in confusion and inefficiency. I'll admit we have to do this at times but we're concerned here with a proper operation. I insist a proper operation cannot be one built entirely on hope.

"Most mortgage men have entered into contracts to service loans involving large sums of money over periods up to 25 years. This imposes upon them a responsibility to stay in business and, at the same time, safeguard the funds placed in our hands. The least we can do is preserve and set aside for that specific use the fees paid us for servicing without dipping into these funds for promotional activities.

"The acquisition of business involves the expenditure of lots of energy and money. It involves a large risk because much of the expenditure is in the nature of an investment in future business which is uncertain. It seems to me to be fundamental that this effort and risk are entitled to a reward. Therefore, I say that to properly operate, a mortgage company is entitled to at least a small profit at the time of loan acquisition. The problem then is *how can we get it?* I'm glad I don't have to answer that one."

What about segregating the cost of obtaining new business from the cost of servicing? When you talk about Service Costs that is one of the things you think about first.

R. A. Benge of Detroit has this to say on the subject:

"Without doubt, there is a definite guide to management to be obtained from the trend of the cost of obtaining new business and the trend of the cost of servicing business already on the books. The management of the business is interested primarily in the *net results* at the end of the year. It should also be interested in the component parts that comprise the net results.

"It appears to me that a complete analysis of operations can only be made with gross figures; and gross figures require that the cost of obtaining new business be *definitely segregated from the cost of servicing it.*

"In the building of a large mortgage portfolio, the cost of obtaining new business over-shadows the cost of servicing. Until the volume increases, the cost of servicing may be excessive until the point is reached where the whole operating expense levels off as the business settles down to routine.

"I am not an advocate of an extensive cost accounting system. I do advocate the design of an accounting system to give the executive the trend of expenses, properly segregated, as a by-product of the usual accounting functions. Divide the accounts as much as you feel necessary, but don't carry this break-down to extremes as it becomes unproductive labor beyond

(Continued on page 6, column 3)

Should Existing Properties Get a Better Deal Under FHA?

One mortgage man thinks so and another disagrees; the reasons of each one are set forth here

When FHA was being created very few mortgage men gave existing construction much thought as to the part it would play in the insured mortgage system. FHA was to spur employment; obviously old houses couldn't contribute much to that.

But today it's a different story as these views suggest, particularly if we are ready to believe that the agency is a permanent federal bureau. At the present time FHA regulations and practices of course favor new construction over old properties. Are the latter entitled to a better deal under the FHA system?

Earl K. Akey of Detroit thinks so and writes:

"Most mortgage men can remember the time when the chief argument for the FHA plan was to stimulate new construction, thus providing employment for construction workers and re-establishing one of the most important of the capital goods industries. Primarily, because of this theory, many who favored the original plan opposed, as far as possible, any use of the FHA insured mortgage on existing construction.

"If FHA is to be a permanent and beneficial part of our nation's financial system, as many of us believe today, then certainly any unreasonable discrimination between financing on new and existing construction places an unfair and unsound burden on older properties. All who are in favor of a sound and permanent system of mortgages financed through the medium of this federally sponsored and operated agency, should cooperate in eliminating any unfair discrimination. At the same time, we should not expect FHA financing to be all-inclusive, even in the residential field.

"The primary objective should be to keep the system sound and have it operated on a basis that will continue to give satisfaction to the home owner and the investor alike, and, at the same time, not undertake risks that would ultimately require the taxpayers to make up losses resulting from unsound financing.

Isn't it just as important to save our older neighborhoods as it is to create new ones? Many have proposed that FHA regulations and practices be changed to give a somewhat better break to existing construction. Two mortgage men look at the question here and give their views. Earl K. Akey, manager of the investment department of the Maccabees of Detroit and J. A. Markel, president of J. A. Markel, Inc. of New York, are in opposite corners.

"In my opinion it would be a serious mistake to insure 90 per cent mortgages on older houses. For one thing, appraisals cannot be made with the same degree of certainty. Appraisal of a new house of the lower to medium priced class is the easiest task an appraiser has to face. Conversely, an accurate appraisal on an old house is probably the most difficult of an appraiser's assignments, and regardless of how accurate and painstaking he may be, the market price an old property will bring cannot possibly be determined with the same accuracy as a new medium or small home of conventional design. I therefore submit that it would be detrimental to the entire FHA system to expand the coverage to include 90 per cent loans on old houses.

"If financing on old houses up to 80 per cent is to be undertaken, it should be only after certain minimum housing standards have been carefully formulated, as has been done already in the new house construction field. To provide FHA financing on sub-standard housing will prolong the life of such properties and defeat the ultimate objective of providing better housing for the lower income group.

"I do not believe whole sections of a city should be condemned for FHA lending. I do believe the agency's consideration of applications should be based on an examination of the individual structure. To rehabilitate a whole neighborhood is a seemingly impractical task for private capital even with FHA insurance. I would like to see individual properties, even in undesirable territories, available for reasonable FHA financing and by this process encourage individual property owners to improve a particular property or properties and thus arrest further decline and possibly encourage other property owners in the section to bring their properties up to the minimum standards.

"If then, it is taken for granted that the FHA plan of residential financing is a permanent thing, the insured mortgage plan should include 80 per cent financing on existing construction which meets reasonable housing standards."

The view of J. A. Markel of New York is in contrast to that of Mr. Akey. He writes that:

"I look at it solely from the standpoint of a mortgage man interested only in securing the best mortgages for his clients. I am not taking the broader real estate or local view with respect to the affect of discrimination on other properties.

"Knowing the intent and reason for the FHA's existence, in my opinion, more generous treatment should be afforded new construction which has had a tendency to increase the employment of skilled labor and has converted vacant lots which were a burden to the owners and on which municipalities sometimes could not collect taxes, into a more or less live asset.

"FHA's activities have been a great benefit to existing construction by having caused many people to become home-conscious. Many of them buy new homes;

(Continued on page 6, column 2)

INITIAL PREMIUM LOANS

(Continued from page 3)

profitable in the long run, even with the addition of an original premium made at the time the servicing contract is consummated, it must necessarily follow that in order for a mortgage company to even hope to make a profit by selling its FHA mortgages on the flat initial premium basis, this premium would have to amount to 8 or 9 per cent. The only conclusion that I could reach, therefore, in regard to FHA loans is that this practice could not be followed, as I cannot conceive of any financial institution paying a premium of 8 or 9 per cent and trusting that the servicing company will properly handle their loans for the next twenty or twenty-five years without any additional remuneration.

"I do believe, however, that the flat initial premium plan could be profitably followed in the servicing of conventional mortgages. For the servicing agent need not maintain escrow funds, nor pay taxes, nor handle the million and one minute details that he must handle in servicing an FHA insured mortgage. In addition, the term of the mortgage is usually shorter, and payments often made quarterly or semi-annually.

"The setting up of adequate reserves to cover the future servicing costs which have been contracted for would be, it appears to me, a definite necessity.

"In any business, the maintenance of adequate reserves is a primary requisite, whether it be a reserve for contingencies, for depreciation, for obsolescence, or for contracted future obligations of which this constitutes part, and I cannot see that there can be any dispute on that score.

"The question of the basis upon which these reserves should be computed is a difficult one, and could not be resolved into a rule of thumb method nor a definite formula or percentage basis applicable to all companies. For each mortgage company would have a different cost ratio, each company would be servicing mortgages with different maturities, each company would be servicing mortgages of different face amounts, and, therefore, each company would have different problems to face and would have to determine from an analysis of these problems the basis upon which to calculate their reserves. For example, if you were servicing loans each of which was in the amount of $100,000, your reserves could be much smaller than if each of your loans was in the amount of $5,000. Or if all of your loans matured in five years, your reserves need not be as large as those required by 20 year loans.

"If you sell loans on this flat initial premium basis, be sure to set up reserves."

BETTER FHA DEAL?

(Continued from page 5)

but many also purchase existing properties offered on the market.

"I believe that existing construction should be eligible for insurance by the FHA on the present basis provided that the properties are thoroughly modernized in order to meet competition should it become necessary for the FHA or the mortgagee to offer the property for sale after foreclosure. We understand that FHA is quite liberal in increasing the loan to be insured to include the increased value brought about by such modernization and rehabilitation.

"If the FHA accorded the same treatment to existing construction that they do to new homes, we would have complaints from a great many of our clients due to their portfolios being raided and refinanced on the FHA plan in lieu of the present mortgages held by them.

"The cases of existing construction offered for insurance that have come under my observation, indicate that borrowers have been fairly treated and do not believe there is cause for criticism.

"The precautions taken by the FHA and the science applied to their underwriting is one of the reasons for a wide market for insured mortgages. To depart from what is considered a sound policy might very well affect this market by increasing the number of foreclosures and losses sustained by the FHA as insuror.

"In further support of this contention we believe that whereas the maximum amount of a safe first mortgage prior to the advent of the FHA was 66⅔ per cent, that a mortgage representing 80 per cent of the appraised value on existing construction, which has been put in a good state of repair or rehabilitated, is a very liberal loan considering the natural obsolesence which takes place in houses and communities which need not be shown in the state of repair."

ACQUISITION PROFITS

(Continued from page 4)

a certain point. Be sure that the executive gets this information quickly and *at the time of its maximum value.* The figures may be presented to advantage by making graphs to show their trends as well as their amounts.

"Segregate your accounts to correspond with the division of operations and you will be able to effectively control the expenses of certain operations. Simple controls will provide the necessary and vital income and expense figures because if you service mortgages for others, the only source of income is your service deductions and you do not have the interest on the investment to absorb some of the cost.

"Do not overlook the fact that the income from servicing is the greatest in the beginning, and that under the terms of the usual servicing contract, it gradually diminishes. The cost of servicing should be based on the average income over the whole term of the agreement rather than based on the relatively high income enjoyed during the first five years.

"The cost of obtaining new business should be limited as much as possible to expenditures of a productive nature and should be designed to build up the momentum of the new business section. The premiums received from the sale of investments help to offset this expense. New business should not be written at a loss because under present conditions the abnormal amount of refinancing almost precludes taking on of new business at a loss with the false hope that the loan will be on the books long enough to recover, through the servicing income, the expense of obtaining the loan.

"Good management must provide itself with information gathered from gross income and gross expense figures in order to determine sound policies and expenditures on a long range basis. Extensive cost accounting is not particularly desired but a simplified substitute must be found and adapted to the needs of the business. Adequate reserves from present-day income should be made to insure the stability and profitable operation of the business."

Heavily increased home financing in 1940 jumped the U. S. urban home mortgage debt to about $19,300,000,000, or near that of 1928.

The MORTGAGE BANKER

Published Semi-Monthly by the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

111 West Washington Street, Chicago

DEAN R. HILL .... *President*
FREDERICK P. CHAMP .... *Vice President*
GEORGE H. PATTERSON .... *Secretary-Treasurer*

The MORTGAGE BANKER is distributed free semi-monthly to members of the Mortgage Bankers Association of America. Publications may reproduce material appearing in the magazine only by permission of the Association. Opinions expressed in THE MORTGAGE BANKER are those of the authors or the persons quoted and are not necessarily those of the Association.

APRIL 1, 1941

MBA Dallas Clinic Scheduled for May 17th at Hotel Baker

The Dallas Clinic — our last regional Clinic for 1941 — will be on May 17th *not the 10th* as we previously told you. Regional MBA Vice President Allyn R. Cline of Houston will be in charge and the preliminary plans already underway indicate that it will be another top-flight get-together in this 1941 MBA series of Clinic sessions. The strong Texas Mortgage Bankers Association and the equally strong Houston organization will cooperate in sponsoring our first Southwest Clinic.

The Clincinnati Clinic is the immediate matter at hand, however, and George H. Patterson, MBA secretary, and Charles A. Mullenix, regional MBA vice president for the central area, both join in urging all MBA members to attend if they can.

The principal feature, as we told you before, is a brand new Clinic subject — Conventional Loans. That ought to interest about everybody, it seems, and particularly when they know that the prepared papers under this discussion section will be given only by life insurance company executives. We've already read some of them and can say for sure now that you're going to enjoy listening to what Harry C. Peiker, assistant superintendent of loans, Massachusetts Mutual Life Insurance Company, Springfield, has to say on *Loans on Office Buildings;* what Clarke C. Stayman, vice president, The Western & Southern Life Insurance Company, Cincinnati, thinks about *What Type of Property, Mortgage Provisions and Terms, Are Desirable and Acceptable for Conventional Loans on Single and Two-Family Houses?;* and what Carl DeBuck, comptroller, The Union Central Life Insurance Company, Cincinnati, has to say on *How Can Accounting Be Standardized or Simplified So That Both Correspondent and Principal May Affect Savings in Service Costs?*

Paul J. Vollmar, manager of the real estate and mortgage loan departments of The Western & Southern Life Insurance Company, will lead the discussion on conventional loans. Charles H. Sill, DMBA president and executive vice president, Drennan & Sill, Inc., Detroit, will lead that on Appraising; R. B. Hassett, president, Hassett Investment Corporation, Detroit, that on FHA; L. A. McLean, MBA past president and president, Southern Trust Company, Louisville, that on Acquisition of New Business; and H. R. Templeton, vice president, The Cleveland Trust Company, Cleveland, that on Service Costs.

Cincinnati members of the national organization who will take part include: Paul Vollmar, Western & Southern Life Insurance Company; Clifford T. Harvuot, Robert A. Cline, Inc.; E. C. Edmonds, The Ohio National Life Insurance Co.; Henry Potthoff, Robert A. Cline, Inc.; Walter S. Schmidt, Fred'k A. Schmidt, Inc.; Carl DeBuck, The Union Central Life Ins. Co.; and W. H. Frantz, The Fifth Third Union Trust Co.

Members of the Cincinnati Mortgage Bankers Association who will participate include Landon L. Wallingford, Leo E. Oberschmidt, E. W. Russell, Irwin J. Roth, H. J. Pfiester, Harris A. Ellison, Lewis A. White, Wallace S. Espy, Robert H. Wheat, C. M. Fredericks, F. W. Wearin, Henry Bunker, Thomas M. Gregory, Geo. Palmer, Harry E. Niemeyer, C. P. Kennedy, Henry J. Mergler, Wm. H. Hey, Geo. A. Dieterle, Albert Mayer and John H. Garber.

BOMBED REAL ESTATE

The British are taking what seems to us a very realistic view about the damage caused by bombs in London. The bombs are removing some of the real estate monstrosities which probably never would have been removed otherwise.

Writes the editor of *The Journal of the Royal Architectural Institute of Canada:*

"If it were not for the deplorable loss of life, the German bombers are accomplishing in London what decades of peace would not do in eliminating slum dwellings and antiquated, unsanitary larger buildings quite inadequately designed for modern commercial or living purposes. When London is repaired we predict a revolution in architectural design as well as in British methods of construction, which are as outmoded in some respects as the buildings."

British citizens have sharply criticized speculators for buying up great blocks of blitzed real estate with intent to resell after the war at extortionate profits.

"A real-estate agent told me," broadcast an American radio man, "that the reason for London's failure to beautify itself after its first cleansing fire 300 years ago was that businessmen then were so eager to get back to work that they threw up any sort of building, just so that they would be in a position to do business. It's feared there will be a similar rush to get any kind of office going after this war is over."

To apply the brakes to this type of rush by British businessmen, officials have worked up broad schemes for a more beautiful post-war Britain. Today 99 per cent of all new building operations is under direct Government control and private building can be done only under a special license. This does not apply to repairs and patching up of blitzed houses, which is fast becoming a nationwide non-union job in which everybody has a hand.

HOUSING SHORTAGE

Reports that this country was close to a housing shortage are supported by the revised statement from the Bureau of Census which shows that only 1,884,016 dwelling units out of 37,336,890 in the country were unoccupied or in the market for sale on April 1st last year.

Director of the census said that this vacancy represented only 5 per cent, which was viewed by interests, other than government officials, as a very narrow margin. This figure, it was said by real estate interests, had been reduced considerably since last April by the demand for houses to accommodate workers on national defense projects.

DEFENSE HOUSING

(Continued from page 2)

previously been held to be sound banking practices. The situation we are facing today, however, is a critical one and we must employ summary measures with which to attack it. The National Defense Housing Coordinator feels that this method, even though losses to the government may be more apt to occur than under ordinary FHA financing, is worth using because it will assure the maximum use of the numerous builders of low cost homes who are accustomed to operating in all sections of the country with insured mortgage financing. In proposing the amendment he said: "The use of these normal processes and the adaptation of normal methods of financing to the present situation will provide an expeditious and flexible method of producing the required housing with a minimum of dislocation to the community, the private construction industry, and the system of residential financing. At the same time it will greatly reduce the present burden upon the facilities of Federal agencies engaged in the direct construction of publicly financed defense housing."

Realizing that such loans, even though insured by the government, may represent a somewhat higher degree of risk than ordinary small home loans, the bill is in such form, following present provisions of the National Housing Act that the interest rate may be raised if necessary. The bill stipulates the rate is not to exceed 6 per cent if FHA finds that in certain areas or under special circumstances the mortgage market would demand it. The going FHA rate at present is 4½ per cent. In order to protect the equity of thousands of mortgagors purchasing homes under previous FHA regulations, the separate defense housing insurance fund was established. To aid the lending institution in running the greater risks involved, the FHA under the new measure will assume two-thirds of the foreclosure cost or will pay $75, whichever is greater.

In this way we hope private industry will help us carry part of the burden. Of course, we realize that in many instances it will be impossible for private capital and small home builders to provide the needed housing units. This will be true in cases where the need is for such a short time that it would be uneconomic for private capital to be invested, or where the wage scales of the people to be housed make it uneconomic for private enterprise to build in these brackets. In such instances, the government will build. In many places we hope to be able to erect demountable structures with a high degree of salvage value so that after the emergency they can be moved to some other location where there will be greater need for them. In this way we hope to obviate the "ghost towns" of the last war, and the reminders of other situations where a tremendous expansion of industrial activity later waned.

BYRON T. SHUTZ

Byron T. Shutz, executive vice president, Herbert V. Jones & Co., Kansas City and a past president of MBA has been elected chairman of the board of the Kansas City Philharmonic Orchestra. Mention of Mr. Shutz reminds us that the Cincinnati and Dallas Clinics on April 5th and May 17th respectively are the 28th and 29th Clinics sponsored by MBA since February, 1940. Mr. Shutz conceived the Clinic idea during his administration and devised the working arrangements under which these meetings have since proved so popular.

Last fall we figured roughly that 200,000 new houses would be needed for defense workers throughout the country and that considerably more than half would be supplied by private enterprise. Here is what we *now find*. What appeared to be adequate last fall is not adequate. Two-line powder plants, then with 4,000 employees each, have burst into six-line jobs with 12,600. One airplane producer who had $350,000,000 in contracts now has $500,000,000.

Consequently, *more housing is needed.* This unforeseeable bulge must be met. We hope that much of it will be taken care of through private enterprise aided by the liberalized National Housing Act. This is where you can help. You can make your funds available for investment in small home mortgages that can be obtained by workers in our defense industries. FHA insurance will protect you. Furthermore, you will realize that the more housing furnished by private industry the less the government will be obliged to supply.

You may already have been busy estimating how much the expenditure of funds by the government for public housing will affect your investment in the real estate market. The government is not and has no intention of building in competition with private industry where private initiative can meet the need. It is our job to serve the needs of those families who cannot be reached through the ordinary credit channels and we are restricting our operations to this end. However, if the Coordinator decides that a certain number of dwelling units are needed in a given locality, and if he assigns a certain proportion of this need to be filled by private initiative, he expects that lending institutions, in cooperation with local builders, will rise to the occasion and supply their allotment. If they don't, the Coordinator has no other choice than to furnish the needed units by direct governmental appropriations. The housing needs of workers in our defense industries must be fulfilled—through private means if possible, *but anyway fulfilled.*

Although the Government is building for defense, it is also building for the long range betterment of our living standards. C. F. Palmer, the Coordinator, recently said:

"I would like to emphasize the fact that slum clearance in general, although it is not the job of the defense housing office, is a real and important element in defense. For a few months perhaps we may have bottlenecks in the building industry that will require us to give first place to defense housing needs. There is every reason, however, to go forward as fast as possible with plans for improving living conditions everywhere. Every family whose living conditions are raised to the level of decent American standards is a point scored in better morale."

d.
et.
en
ed
t.
an
nt
b-
s-
u.
ne
s-
oe

ti-
of
s-
al
ot
n-
ri-
It
n-
ne
e-
w-
a
re
as-
to
ts
on
a-
ey
ce
di-
he
se
ri-
al-

ng
he
d-
re-

act
gh
ng
in
we
n-
rst
is
as
ng
m-
to
is